



INTERNAL AUDIT DEPARTMENT
COUNTY OF ORANGE

*Integrity
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**REVIEW OF
HEALTH CARE AGENCY
BUDGET PROCESS & CONTROLS**

AUDIT NUMBER: 2438-2

REPORT DATE: APRIL 27, 2005

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**Review of Health Care Agency
Budget Process & Controls
Audit No. 2438-2**

As of December 31, 2004

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**COUNTY OF ORANGE
INTERNAL AUDIT DEPARTMENT**

OFFICE OF THE DIRECTOR

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Transmittal Letter

Audit No. 2438-2

April 27, 2005

TO: Juliette A. Poulson, Director
Health Care Agency

FROM: Peter Hughes, Ph.D., CPA, Director
Internal Audit Department

SUBJECT: Review of Health Care Agency Budget Process & Controls

We have completed a review of the County budget process in the Health Care Agency as of December 31, 2004. Our final **Internal Auditor's Report** follows this transmittal letter.

As the Director of the Internal Audit Department, effective December 14, 2004, I now make a monthly audit status presentation to the BOS where I detail any material and significant audit findings released in reports during the prior month, the implementation status of audit recommendations as disclosed by our Follow-Up Audits, any pressing audit or resource issues; as well as, respond to inquiries from the BOS. Therefore, the results of this audit will be included in a future summary to the Board.

Additionally, we will be sending a Customer Survey of Audit Services to the key audit contacts in your department. Please have them complete the survey and return it to Renee Aragon, Executive Secretary, Internal Audit Department.

We appreciate the cooperation and assistance extended to us by the budget personnel and management in the Health Care Agency.

Attachment

Other recipients of this report:

Members, Board of Supervisors
Members, Audit Oversight Committee
Foreman, Grand Jury
Thomas G. Mauk, County Executive Officer
Ed Corser, Deputy CEO, Chief Financial Officer
Steve Dunivent, Manager, CEO/Budget Office

Juliette A. Poulson, Director, Health Care Agency

April 27, 2005

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Darlene J. Bloom, Clerk of the Board of Supervisors

Alice Manning, Deputy Agency Director, HCA/Financial & Administrative Services

David Thiessen, Manager, HCA/Financial & Program Support Services

Janet Holcomb, Manager, HCA/Budget/Technical Unit



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INTERNAL AUDITOR'S REPORT

Audit No. 2438-2

April 27, 2005

Juliette A. Poulson, Director
Health Care Agency
405 W. 5th Street
Santa Ana, CA 92701

We have completed a review of the County budget process in the Health Care Agency. Our review was as of December 31, 2004 and included an evaluation of processes and controls for developing and monitoring department/agency budgets. The purpose of our review was to assess the budget process and controls at a sample of departments and agencies. This review is a continuation of our efforts to review the County budget process. Our prior audits of the budget process included a review of the CEO/Budget Office, Auditor-Controller/Revenue and Budgets, and RDMD's Planning and Development Services Function (formerly Planning and Development Services Department), where a fund deficit occurred in June 2002 resulting from budget related issues.

SCOPE AND OBJECTIVES

Our review of the budget process was performed in the **Health Care Agency, Public Defender, Sheriff-Coroner Department** and the **Social Services Agency**. Our objective was to assess the process and controls regarding the development, review, approval, and monitoring of the FY 2004/05 budget to ensure budget issues are adequately understood and communicated within the organization, and are also reported to the County Executive Office. As such, we assessed management's reviews and approvals of budget documents and reports. Additionally, we evaluated the training processes for individuals responsible for department/agency budgets. Our review did not evaluate the process and controls in the CEO/Budget Office and Auditor-Controller/Revenue and Budgets, or the Budgeting Reporting and Analysis Support System (BRASS) used to create and compile budgets.

CONCLUSION

We are pleased to report that the process and controls in the Health Care Agency demonstrated a **well-defined and articulated budget process**. Our review of the budget process **did not identify any reportable, significant or material issues**. Most noteworthy, we found that budget roles and responsibilities in the Health Care Agency are clearly established, and that communications within the Health Care Agency and with the County Executive Office are taking place and are effective. Budgets are being monitored regularly and there are adequate training and cross-training processes to minimize any potential disruptions in preparing and monitoring the Health Care Agency budget.

Juliette A. Poulson, Director

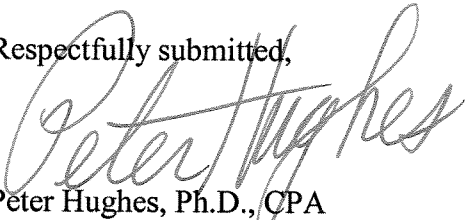
April 27, 2005

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Although this report does not have any audit recommendations, as always, the Internal Audit Department is available to partner with you so that you can successfully implement or mitigate difficult audit recommendations. Please feel free to call me should you wish to discuss any aspect of our audit report.

We appreciate the cooperation and assistance extended to us by the staff of the CEO/Budget Office, Auditor-Controller/Revenue and Budgets, and especially from budget personnel and management in the Health Care Agency.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Peter Hughes", is written over the typed name and title.

Peter Hughes, Ph.D., CPA
Director, Internal Audit

Distribution: Pursuant to Audit Oversight Committee Procedure No. 1

Members, Board of Supervisors

Members, Audit Oversight Committee

Foreman, Grand Jury

Darlene J. Bloom, Clerk of the Board of Supervisors

Ed Corser, Deputy County Executive Officer, Chief Financial Officer

Steve Dunivent, Manager, CEO/Budget Office

Alice Manning, Deputy Agency Director, HCA/Financial & Administrative Services

David Thiessen, Manager, HCA/Financial & Program Support Services

Janet Holcomb, Manager, HCA/Budget/Technical Unit

EXECUTIVE SUMMARY

We conducted a review of the budget process and controls in the Health Care Agency as of December 31, 2004.

BACKGROUND

All departments/agencies prepare annual budget requests (budgets) that are submitted to the CEO/Budget Office and the Auditor-Controller for review, and ultimately to the Board of Supervisors for adoption in the County's Final Budget. Departments/agencies have primary responsibility over their budget preparation and monitoring processes. Depending on their size, departments/agencies have from one to several Budget Analysts and support staff to prepare and monitor their budgets. CEO/Budget Office provides departments/agencies with Budget Instructions and Budget Calendars for preparing their annual budgets.

CEO/Budget Office also establishes County budget policies, ensures adherence with the Budget Instruction Manual, and maintains the Budget Reporting and Analysis Support System (BRASS) used to create and compile budgets. CEO/Budget Office provides oversight of department/agency budgets by reviewing budget requests, augmentations, revenue and expenditure projections, variance analyses, and providing assistance to departments/agencies. Auditor-Controller/Revenue and Budgets also provides a variety of budget review and support responsibilities.

The Health Care Agency had three budgeted funds **totaling 476 million** for FY 2004/05 as follows:

Fund	Number	Budgeted Amount (Rounded)
General Fund	100/042	\$465 million
Medi-Cal Administrative Activities Special Revenue Fund	138	\$11 million
HCA Purpose Restricted Revenues	13T	\$634,000

HCA is organized into six service areas: Public Health, Behavioral Health, Medical and Institutional Health, Regulatory Health, Public Administrator/Guardian, and Administration. The Financial & Program Support Services provides budgetary function. The budget team consists of the Manager of Financial & Program Support Services, four Program Support Managers and sixteen Program Support Analysts of various programs. HCA maintains and distributes to budget personnel a detailed budget calendar that list tasks to be completed and their due dates. There are approximately 200 revenue sources for the Health Care Agency with Behavioral Health having the largest portion. Salaries and benefits account for over 40% of the annual budget.



OBJECTIVES

Our review assessed the process and controls at the Health Care Agency for the following:

➤ **Development, Review and Approval of the Budget for FY 04/05.**

We evaluated the roles and responsibilities of budget staff and management, the adequacy of budget support documentation, evidence of management review and approval of budget support schedules, and effectiveness of communication between all levels involved in the development and approval of the budget, including Health Care Agency Executive Management and the County Executive Office.

➤ **Monitoring of Budgets.**

We evaluated the Health Care Agency's on-going monitoring processes over the budget, which includes the monitoring of revenues, expenditures, fund balance available, net County cost, available financing reports, budget projections, variance reports, budget augmentation requests, and the analysis of prior year budget augmentations to related performance measures. We assessed the extent of on-going communications that occur between the Health Care Agency and the CEO/Budget Office throughout the year.

➤ **Training and Procedures.**

We evaluated the training (and cross-training) processes and the existence of policies and procedures that are specific to the Health Care Agency and supplement the CEO/Budget Office instructions.

APPROACH

Our methodology included inquiry, auditor observation and examination of budget documents and correspondence showing how the Health Care Agency prepared, reviewed, approved, and monitored its annual budget.

To accomplish our objectives, we prepared a detailed *Internal Control Questionnaire* to identify the budget process and controls specific to departments and agencies. In the development of the questionnaire, we obtained input from the CEO/Budget Office to ensure areas addressed were pertinent to the department/agency budget process. We conducted interviews with Health Care Agency Budget Analysts and obtained their input to the questionnaire. To substantiate the responses on the questionnaire, we met with budget staff and management and examined related documentation. We conducted interviews with various individuals in the Health Care Agency to determine the effectiveness of communication of budget issues. Finally, we asked Health Care Agency what essential elements contributed to the successful budget preparation process.

In *Attachment A*, we have listed the factors that have contributed to the success in the budget process performed by the Health Care Agency and the other three departments/agencies we reviewed.



OBSERVATIONS

- The Health Care Agency (HCA) maintains and distributes to budget personnel a detailed budget calendar that lists the responsible unit/staff, task to be completed and its due date.
- Detailed Excel spreadsheets are used for monitoring Net County Cost projections and variances on a monthly basis. HCA developed spreadsheet formats that are consistent for budget monitoring and for the ease of roll up from Org. levels, to service areas and to the agency level.
- There is ongoing communication among the staff involved in the budget process as well as with the Executive Management Team and with the CEO/Budget Office.
- HCA maintains a step-by-step overview of the year-end closing process.
- A detailed model was developed for projecting salaries and employee benefits.
- HCA works closely with the CEO/Budget Office staff to anticipate upcoming changes to the process.
- A detailed Strategic Financial Plan document is prepared to allow multi-year planning of service needs and potential service reductions.
- Recent cost studies have been conducted to determine the adequacy of HCA fees to ensure full cost recovery.
- Current “Cost Apply” agreements are maintained with other departments/agencies.
- Documentation was prepared to analyze intended outcome indicators for prior year budget augmentations.

CONCLUSION

We are pleased to report that our review of the budget process at the Health Care Agency **did not identify any reportable, significant or material issues**. We found that budget roles and responsibilities within the Health Care Agency are clearly established. The Health Care Agency budget team had developed its own specific budget procedures and calendar to supplement the policy and procedures prepared by the CEO/Budget Office. Communications about the budget are occurring within the Health Care Agency and with the County Executive Office through the Deputy County Executive Officers and the CEO/Budget Office. The approved budgets are monitored on a regular basis throughout the year and the required projection and variance reports are being submitted to the CEO/Budget Office. Additionally, we found that there are adequate training and cross-training processes in place to minimize any potential disruptions in preparing and monitoring the Health Care Agency budget.



ATTACHMENT A

DEPARTMENT/AGENCY SUCCESS FACTORS

The following are the factors the four departments/agencies identified during our review that contribute to their successful management of budgets. We believe departments/agencies should consider adopting any of these factors in their budget process where applicable.

POLICIES AND PROCEDURES

- Supplementing the CEO/Budget Office's Budget Instructions and Budget Calendar with their own detailed procedures and calendars that indicate specific tasks, dates, individuals responsible for the tasks, and back-up staff for each task.
- Preparing a detailed Strategic Financial Plan document to allow multi-year planning of needs and potential service reductions.
- Maintaining a step-by-step overview of the year-end closing process.
- Conducting year-round budget monitoring and Net County Cost projections.
- Using consistent formats for budget monitoring spreadsheets.
- Starting the budget process early (October) to ensure critical deadlines are met.
- Using technology to download useful information (e.g., State requirements) to analyze information and to monitor program status.

COMMUNICATION

- Actively involving Executive Management, Finance/Administration Management, and Program/Division Managers in developing budgets, reviewing monthly expenditure reports, and attending regular budget meetings.
- Holding Program/Division Managers accountable for their budgets.
- Having meetings with budget teams and the department/agency programs/divisions to review and discuss the budget after final adoption.
- Having exit meetings with budget teams and program/division managers for discussions on how the prior year budget was met.
- Communicating with the CEO/Budget Office to identify any upcoming changes.

TRAINING

- Budget teams providing workshops and training to Program/Division managers regarding budget preparation and monitoring.
- Budget Analysts working closely with each other with a willingness to cover other Budget Analysts in the event of absence.

